United States Court of Appeals

for the Second Circuit

APPELLEE’S BRIEF

75 7269/7276

In the

UNITED STATES COURT OF APPEALS
For the Second Circuit

B
P/S

CES PUBLISHING CORP.

Plaintiff-Appellant
Cross-Appellee

- against -

ST. REGIS PUBLICATIONS, INC.

Defendant-Appellee
Cross Appellant

Reply Brief of Plaintiff-Appellant/Cross-Appellee on Appeal From an Order of the United States District Court for the Southern District of New York Denying Appellant's Motion for Preliminary Injunction.

Arthur Scheiner
Michael H. Rosenbloom
Paul M. Ruden
Wilner & Scheiner
2021 L Street, Northwest
Washington, D.C. 20036
(202) 293-7800

Attorneys for Plaintiff-Appellant/
Cross-Appellee

3

TABLE OF CONTENTS

TABLE OF CASES AND AUTHORITIES

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Reply Brief of Plaintiff-Appellant/Cross-Appellee

CES Publishing Corp. [1/] submits this brief as its reply to the answering brief of St. Regis Publications, Inc. [2/] and as its

1/ Hereinafter referred to as "CES".

2/ Hereinafter referred to as "St. Regis".

answer to the same brief of St. Regis in support of its cross-appeal in Docket 75-7276.

INTRODUCTION

St. Regis' answer to CES' opening brief[3/] contends that the District Judge's findings that "Consumer Electronics" was "not the subject of a valid trademark" and had not acquired secondary meaning were dispositive of the entire case. This argument is based on the erroneous belief that proof of secondary meaning was also necessary to establish a claim under the New York common law of unfair competition and under the New York statute on tradename dilution. The authorities cited by St. Regis do not support this premise.

In apparent recognition of the weakness of that argument, St. Regis in its brief attempts to supply the analysis and findings on the several issues which the Court below failed completely to address. Such efforts do not compensate for the absence of the findings of fact and conclusions of law required by Rule 52(a) of the Federal Rules of Civil Procedure. All of St. Regis' conclusions regarding the likelihood of confusion, irreparable injury, and balance of hardships were contested before the District Court. Yet the Judge's opinion does not even mention

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3/ Section III of St. Regis' brief.

them. No amount of after-the-fact rationalization by St. Regis can overcome this error. 4/

St. Regis likewise relies upon the secondary meaning theory to support its position that the complaint failed to state a claim upon which relief can be granted. 5/ Its argument is that following the hearing on the motions for preliminary injunction and dismissal the District Judge should have dismissed the entire action rather than leaving open the opportunity for CES to enter further proof at the full trial on the request for a permanent injunction. Clearly such a decision would have deprived CES of its right to a full hearing under Rule 65 of the Federal Rules of Civil Procedure. Judge Duffy's conclusion that the proof of secondary meaning was inadequate referred specifically to "the proof <u>at</u> <u>this</u> <u>point</u>". 6/ There is no legal authority for St. Regis' contention that proof of secondary meaning was impossible as a matter of law. The question whether secondary meaning has been proved is an issue for case-by-case adjudication. Failure to satisfy the Court below on a motion for preliminary injunction does not mean that proof on that

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4/ We do not address herein the constitutional issues suggested in passing in St. Regis' Brief at page 28. This issue was not raised below.

5/ Section I of St. Regis' brief.

6/ See A-50 (emphasis added).

issue is foreclosed. St. Regis' motion to dismiss under Rule 12(b)(6) properly could not have been granted.

Finally, there is no merit to St. Regis' argument that Television Digest, the ultimate owner of the mark "Consumer Electronics", was an indispensable party to this litigation. The cases are quite clear that a person in CES' position has an independent interest to protect, that it may sue in its own behalf and that where the owner of the mark has consented to the suit, the owner need not be joined.

ARGUMENT

I. THE DISTRICT COURT ERRED BY FAILING TO MAKE FINDINGS REGARDING THE UNFAIR COMPETITION AND TRADEMARK DILUTION CLAIMS.

St. Regis appears to have made two separate arguments to justify the District Court's total failure to address CES' unfair competition and tradename dilution claims. On the one hand, it argues that analysis of these issues was "superfluous" after the Court below held that "Consumer Electronics" was not a valid trademark, citing Clairol, Inc. v. Gillette Company, 389 F.2d 264, 265 (2d Cir. 1968). On the other hand, it contends that secondary meaning must be proved in an unfair competition/dilution action and that the District Court's finding that no

secondary meaning had been proved was the dispositive of all of CES' claims.

St. Regis' reliance on the Clairol decision is totally misplaced. The Court of Appeals there addressed only the question whether the plaintiff's trademark was sufficiently likely to be held valid so as to justify a preliminary injunction. The court held that there had been no abuse of discretion on that issue and that there was therefore no need to consider the other grounds for denial of the injunction. But the District Court in that case had explicitly addressed the plaintiff's state law claims and held that they could not be decided at that preliminary stage of the litigation due to numerous factual disputes. 7/ 270 F. Supp. at 380-381. The Court of Appeals made express note of this fact. 389 F.2d at 271, n. 17. Thus, the Clairol case does not stand for the proposition that state law claims based on unfair competition and trade-name dilution can be ignored by the District Court once it finds insufficient likelihood that there is a valid trademark under federal law.

The second aspect of St. Regis' argument is equally weak. It is quite clear that Judge Duffy's decision that adequate proof of secondary meaning had not been made was limited to the proceeding then before him -- a motion for preliminary injunction. He held that the proof "at this point" was insufficient and no more. While we continue to believe

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7/ As noted in our opening brief at 11, there are no material factual disputes here.

that the Judge's subsidiary findings of fact were not logically related to his conclusion, this finding in any event related only to the Lanham Act claim, 15 U.S.C. §1125(a). It did not simultaneously dispose of the unfair competition and dilution claims, because proof of secondary meaning is not necessary to sustain such causes of action.

Whatever the "general rule" is,[8/] St. Regis has in fact conceded, at pages 25-26 of its brief, that there are situations in which secondary meaning need not be shown to sustain a case of unfair competition/dilution. So-called "palming off" is the most important category into which this case squarely fits.

Proof of "palming off" does not, however, require that the acts amount to fraudulent misrepresentations as suggested by St.

8/ For example, this court in Joshua Meier Company v. Albany Novelty Mfg. Co., 236 F.2d 144 (2d Cir. 1956) stated that §368(c)(3) of the New York General Business Law [now §368(d)] "broadens the traditional concept of unfair competition so that secondary meaning and confusion of goods are no longer required", citing cases. 236 F. 2d at 148. In that case, however, the Court held that there was sufficient doubt whether the defendant's terms were not widely used in the industry to describe similar goods as to preclude a finding of abuse of discretion by the District Court in denying a preliminary injunction. Other than St. Regis' magazine, there are no "similar goods" in the market to which Consumer Electronics Monthly is directed.

Regis. In Artype, Inc. v. Zapulla, 228 F.2d 695 (2d Cir. 1956), Judge Learned Hand held that an injunction was proper even in the absence of secondary meaning and even though the defendant had adopted the confusingly similar name "innocently". 228 F.2d at 698. Indeed, the defendant there had gone to the extreme of directing confused customers to the plaintiff's sales representative. Nonetheless, constant confusion had resulted between the names chosen by the parties. This was sufficient to support an injunction.[9/]

The record in this case is stronger than in Artype. St. Regis' publication of Consumer Electronics Product News in 1975 followed several unsuccessful attempts to enter CES' prime market using other names (A-19-20, 25). It then selected from among the galaxy of available names the one name, "Consumer Electronics", which was identical with the name used by CES. St. Regis immediately undertook a campaign to publicize the new magazine to the direct detriment of CES.

9/ See also Avon Shoe Co. v. David Crystal, Inc., 279 F.2d 607, 612 (2d Cir.), cert. denied, 364 U.S. 909 (1960), where the Court said:

> Although the defendants have never attempted to pass off their goods as those of the plaintiffs, being apparently quite content to pay their own way, the fact of their good faith cannot eliminate the likelihood of consumer confusion.

Confusion was inevitable and in fact occurred, as St. Regis has conceded (A-21).

These facts bring St. Regis' actions within the "palming off" doctrine, whether committed deliberately and willfully or only innocently. Here there was no use of St. Regis' corporate name or other identification on the cover to distinguish its publication from Consumer Electronics Monthly. Such identification was used in Ralston Purina Company v. Thomas J. Lipton, Inc., 341 F.Supp. 129 (S.D.N.Y. 1972), relied upon by St. Regis.[10/] Similarly, in J. Josephson, Inc. v. General Tire & Rubber Co., 357 F. Supp. 1047 (S.D.N.Y. 1972)[11/], the wallpaper books there at issue were found to be distinctive on their face. The defendant's books in that case had a registered trademark on the cover and the defendant's corporate insignia on the spine. No meaningful effort to differentiate St. Regis' magazine from that of CES was made.

At least one District Court in this Circuit has gone so far as to say, with reference to a Lanham Act Section 43(a) claim, that

> Even assuming secondary meaning had not yet come to full fruition,
>
> > "A mark with secondary meaning in the making should also be protected, at least against those who appropriate it with knowledge or good reason to know of its potential

10/ St. Regis' brief at 25-26.

11/ St. Regis' brief at 26.

> in that regard, or with an intent to capitalize on its quality. 'Piracy should no more be tolerated in the earlier stages of development of quality than in the later'." 3 Callman, Unfair Competition, Trademarks and Monopolies, (3d. ed. 1971) p. 356.
>
> Public confusion as to the source of the program was inevitable. Plaintiff, therefore, has standing to sue and has established its its right to relief under 15 USC §1125(a). 12/

Certainly the same liberal approach should be applied to unfair competition and dilution claims, where in cases of this class, secondary meaning need not be established at all. 13/

Plainly, CES was entitled to an explanation by the District Court as to why the state law claims of unfair competition and trademark dilution were not valid on the facts of this case, regardless of the outcome of the Lanham Act complaint. 14/ St. Regis' *ex post facto* justification for the Judge's silence on this point is erroneous as a matter of law and in any event is no substitute for a fully articulated opinion from the District Court.

12/ *National Lampoon, Inc. v. American Broadcasting Co., Inc.*, 376 F. Supp. 733, 747 (S.D.N.Y.), *aff'd*, 497 F.2d 1343 (2d Cir. 1974).

13/ St. Regis' attempt to raise "distinctiveness" under §368(d) of the New York General Business Law to paramount significance (St. Regis brief at 24-25) is tantamount to imposing a secondary meaning requirement on unfair competition cases as to which it elsewhere concedes no such showing is necessary. Certainly the New York legislature did not intend such a back-handed approach to this issue. At worst, "distinctive quality" under § 368(d) must refer to secondary meaning "in the making" as interpreted in *National Lampoon*. The court below did not, of course, address this question at all.

14/ For the same reasons, it is clear that the complaint did state a cause of action in unfair competition, as well as the Lanham Act. The complaint was thus not subject to dismissal under Rule 12(b)(6) of the Federal Rules of Civil Procedure.

II. THE OWNER OF THE TRADEMARK IS NOT AN INDISPENSABLE PARTY TO THIS LITIGATION

In arguing that CES may not proceed without joining the ultimate owner of the trademark, St. Regis is attempting to narrow the Court's focus to CES' right to relief from technical trademark infringement. It is clear, however, that CES' complaint raised additional issues as to unfair competition and tradename dilution. As to these the participation of the trademark owner is not necessary.

Even under Section 43(a) of the Lanham Act, the cases do not require that the trademark owner be a party to the suit. In Norman M. Morris Corp. v. Weinstein, 466 F.2d 137 (5th Cir. 1972), an exclusive dealer of Omega watches was held to have standing alone under Section 43(a) to sue a fraudulent seller of watches bearing the registered mark. More recently, in National Lampoon, Inc. v. American Broadcasting Co., 376 F.2d 733 (S.D.N.Y.), aff'd. 497 F.2d 1343 (2d Cir. 1974), the court permitted the publisher of National Lampoon to sue under Section 43(a) without joining the licensor, Harvard Lampoon, Inc. 15/ The District Court noted that

> To the extent that Harvard Lampoon has a vested right in the mark by prior usage, it has consented to and approved maintenance of this litigation by plaintiff to protect such rights, as well as plaintiff's own rights. 16/

15/ The decision reflects that the plaintiff there had effected a registration of the name "National Lampoon", but the opinion quite clearly recognizes that the owner of the mark "Lampoon" was Harvard Lampoon, Inc., which had used it since 1876. 376 F. Supp. at 736-738.

16/ 376 F. Supp. at 738.

The trademark owner in the instant case has likewise consented to the bringing of this action (see A-40). There is thus no danger that St. Regis will be exposed to a "substantial risk of incurring double, multiple, or otherwise inconsistent obligations" within the meaning of Rule 19 of the Federal Rules of Civil Procedure.17/

The same rule as to trademark owner participation applies to actions for unfair competition. In G. H. Mumm Champagne v. Eastern Wine Corp., 142 F.2d 499, 502 (2d Cir.), cert. denied, 323 U.S. 715 (1944), Judge Hand held as follows:

17/ The fact that St. Regis alleges that it has challenged the general validity of the trademark is immaterial. Regardless of whether or not the owner is a party, there are limits on what is being litigated in this case, St. Regis' suggestions to the contrary not withstanding. The outcome of this case as to the use of "Consumer Electronics" for the name of a monthly trade publication will not necessarily affect the validity of the trademark for other purposes. The Lanham Act itself explicitly provides for concurrent registration of the same mark by two users where confusion is not likely to occur. 15 USC §1052 (d). As Judge Learned Hand stated in Artype, Inc. v. Zapulla, 228 F.2d 695, 697 (2d Cir. 1952):

> ". . . a mark is not "descriptive, though it contains only descriptive syllables, if, taken as a whole, it does not describe the goods to which it is affixed, though it would be "descriptive", if affixed to other goods. This is altogether aside from any "secondary meaning" that it might acquire." [footnote omitted]

"The second objection: that the Delaware company has no interest to protect, is without substance. We have not to deal with the absence of the 'owner' of the 'title' to the trade-mark -- whatever meaning may attach to those much used, and much abused, words. The French company is not an 'indispensable' party; the Delaware company speaks in its own interest, which is quite separate. It has a monopoly of the sale of Mumm's champagne in the eastern part of the United States, which substitutions of the defendant's wine will directly invade. Sales effected by such substitutions are sales of which it is deprived; and that is the only interest which ever, or substanitally ever, supports such actions."

None of the authority cited by St. Regis leads to a different result. J. C. Eno (U.S.) Limited v. Coe, 106 F.2d 858 (D. C. Cir. 1939)[18/] held only that the opposer to a patent registration may not sue the Commissioner of Patents to compel cancellation of a registration granted by him without joining the owner of the property right as a party. This was a matter of due process protection for the owner of the patent and not for the party whose position was analogous to that of St. Regis in this case.

Similarly, in Higgins, Inc. v. Kiekhaefer Corp., 246 F. Supp. 610 (E. D. Wisc. 1965)[19/], there was great confusion as to who held the "entire title and interest" in the patent. The court therefore required the legal holder of record to be a party, noting that the record holder was

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18/ St. Regis' brief at 34-35.

19/ St. Regis' brief at 36-37.

in liquidation and that party status would protect the defendant against potential intervening rights of innocent purchasers. No such problems exist in this case -- the identity of the record holder is clear, it has consented to this action and there are no potential third persons whose rights might be affected by the outcome of this case.

St. Regis' only other authority on this issue is Pure Food Products, Inc. v. American Bakeries Company, 176 U.S.P.Q. 233 (N. D. Ill. 1972),[20] which it claims to hold that the rules on indispensable parties in patent infringement cases apply equally to trademark cases. But the court there noted that there is little authority on the issue. The trademark at issue there was subject to nine previous licenses and the question of the rights and powers of the plaintiff-licensee was of obvious concern. In the present case, CES is the only licensee and the only user of the "Consumer Electronics" mark for a monthly trade magazine. CES' licensor has expressly approved of the bringing of this action by CES.

St. Regis has presented neither legal authority or independant reasons to support the view that the trademark user is an indispensable party to this action. Its selective recitation of various provisions in the

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20/ St. Regis' brief at 36-37.

CES license to use "Consumer Electronics" presumably was intended to suggest that CES has no substantial interest to protect here. This position in contrary to the case law. See, e.g., G. H. Mumm Champagne v. Eastern Wine Corp., 142 F.2d 499, 502 (2d Cir.), cert. denied, 323 U.S. 715 (1944).

The license in question sets up a mechanism for determinations of conformity or nonconformity to an express standard of performance. If there were no provision for arbitration then a court would be called upon to make the same determination. Moreover, a member of the licensor's staff is also on the staff of CES' magazine; CES' staff members consult with other members of the licensor's staff on a constant basis, at least weekly; and CES invariably sends its licensor a copy of each issue of Consumer Electronics Monthly immediately after printing; and to date, CES' licensor has never lodged a complaint about the quality of its work (A-43).

The law is clear that the provisions of a license agreement are less important on the question of control than whether there has been an exercise of control in fact, 3 Callman, Unfair Competition, Trademarks & Monopolies (3d ed. 1971) §98.3(c), p. 568. Here, the frequent consultation between CES and its licensor and the monthly review of the magazine by the licensor constitutes far more supervision and control

by the licensor than are necessary. In Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co., 221 F. Supp. 576 (E. D. Wisc. 1963), aff'd., 330 F.2d 667 (7th Cir. 1964), the licensee was expressly required to use its "best efforts to preserve the high standard and good will" of the mark, 221 F. Supp. at 581. The licensor conducted no testing of the product sold under its mark while the licensee, a food broker which obtained customers for various canneries and supplied labels bearing the mark, did some testing.

The Court of Appeals specifically upheld the District Court's ruling that "defendant's reliance on its licensee's quality control may be deemed the taking of reasonable measures to protect the quality of the goods bearing the mark", 221 F. Supp. at 581; 330 F. 2d at 670. See also Syntex Laboratories, Inc. v. Norwich Pharmacal Co., 315 F. Supp. 45, 55-56 (S.D.N.Y. 1970), where the court noted that the purpose of the licensor control requirement is to avoid deception of the public as to the quality of a product sold under a recognized name. Indeed, it has recently been held that post-printing review of a licensee's magazine by its licensor constitutes control sufficient to overcome a charge of naked licensing, National Lampoon, Inc. v. American Broadcasting Co., Inc., supra, 376 F. Supp. at 737.

III. THE BALANCE OF HARDSHIPS IN THIS CASE LAY IN FAVOR OF CES.

St. Regis has attempted to portray itself as the hapless victim of unconscionable delay in the filing of this lawsuit by CES. It paints the picture of one who was totally unaware of CES' use of and interest in the name "Consumer Electronics". The facts belie this self-serving portrait of innocence.

St. Regis' own affidavits before the District Court established that it was fully aware as early as June, 1971, of CES' use of and financial commitment to "Consumer Electronics". The intention of CES to protect its investment in the tradename was made known to St. Regis through advertising and editorializing as early as June, 1973. (A-20-21). St. Regis' decision to appropriate the name of CES' magazine was thus made in full awareness that CES would not acquiesce in the use of such name by a direct competitor. St. Regis well knew that a fight would ensue, as evidenced by its own petitions to cancel registration which were filed before the Trademark Trial and Appeal Board in mid-1974. It must be deemed to have assumed the risk in such a course of action. In early December, 1974, St. Regis was advised by counsel for CES that legal action would be taken if St. Regis persisted. Action was taken within a reasonable time after St. Regis' categorical denial of CES' rights. This case is thus not analogous to the cases cited by St. Regis at pages 45-47 of its Brief.

Having elected a course of brinksmanship St. Regis should not now be allowed to escape the consequences of its actions by claiming unreasonable delay in the bringing of an action which it should have known was inevitable.

St. Regis in a similar vein attempts to downplay the confusion to which it conceded on the record before the District Court. It is important to understand, however, that the relevant economic market in this case for CES consisted of its advertisers whose revenues support the magazine (A-11). It was demonstrated on the record below that CES' advertisers were misled. In addition, advertising agencies, experts in their field, were likewise confused by the announcement and publicity regarding St. Regis' new magazine (A-14). 21/ These are not mere clerical errors and are the types of confusion which could be economically disastrous to a company such as CES which was dependent in this instance on advertising revenue as its sole source of income from the publication. Consequences and confusion by advertisers is far more drastic than the results of deceiving

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21/ This fact alone distinguishes Airwick Industries, Inc. v. Alpkem Corp., 184 U.S.P.Q. 771 (D.C. Ore. 1974), relied upon by St. Regis at page 48 of its brief, where the District Court concluded that professional purchasing agents were unlikely to be deceived. 184 U.S.P.Q. at 774. Here the experts were confused in fact. In any case even the parties in Airwick were themselves in agreement that there was no actual competition between them. Id.

individual subscribers to a publication. This case is thus plainly distinguishable from McGraw-Hill Publishing Co., Inc. v. American Aviation Associates, Inc., 117 F.2d 293, 295 (D. C. Cir. 1940), where the record showed only one instance of a misdirected subscription by a clerk of an embassy in a foreign country. Similarly, in Pennsylvania Dutch Co., Inc. v. Pennsylvania Amish Co., Inc., 184 U.S.P.Q. 41 (Penn. C. P. 1974), cited in St. Regis' Brief at page 48, the court found no evidence of actual confusion. 184 U.S.P.Q. at 44. The court did note, however, that even without proof of secondary meaning, the defendant

> . . . may not imitate plaintiff's label and markings in an effort to facilitate the passing-off of its goods as those of the plaintiff by retailers and others connected with the trade. [184 U.S.P.Q. at 49]

IV. CONCLUSION

St. Regis' erroneous analysis of the law of unfair competition and tradename dilution has failed to provide the missing link in the opinion of the District Court. Thus, regardless of the outcome of the case with respect to the Lanham Act claim, the Court below abused its discretion by failing to address the unfair competition/dilution causes of action in CES' complaint.

Respectfully submitted,

CES PUBLISHING CORP.

Wilner & Scheiner
2021 L Street, Northwest
Washington, D.C. 20036
(202) 293 - 7800

Arthur Scheiner
Michael H. Rosenbloom
Paul M. Ruden

Attorneys for Plaintiff-Appellant, Cross-Appellee

Dated:
Washington, D. C.
September 22, 1975

CERTIFICATE OF SERVICE

I hereby certify that on September 22, 1975, I served by first-class mail, postage prepaid, two copies of the Reply Brief of Plaintiff-Appellant/Cross-Appellee in Docket No. 75-7269/7276 upon counsel for St. Regis Publications, Inc.

Paul M. Ruden